

## **Integrating the theories on inter-organizational relationships: the Triple Paradox Model**

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### **Introduction**

Organizational life raises multiple tensions (Martini et al., 2013), such as, for example, those between collaboration and control (Sundaramurthy and Lewis, 2003), between profit and social responsibility (Margolis and Walsh, 2003), between flexibility and efficiency (Adler et al., 1999).

Smith and Lewis (2011) invite to address such tensions by leveraging paradoxical thinking not only in management, but also in research processes. In other words, they suggest that also *conflicting theories* could be considered as a source of possible paradoxical benefits. Not only are managers invited to consider the positive potential of tension between opposite managerial choices: also scholars are invited to consider the positive potential of tension between opposite organizational theories. “Such an assumption introduces the possibility of seeking opposing views of even our most well-established organizational theories. (...) Paradox theory not only proposes that contradictory theories exist but offers a process for academics to start enriching and renewing our stock of organizational theories” (Smith and Lewis, 2011, p. 398).

In fact, if we compare and contrast management theories, we can easily see that they build upon very different assumptions. For example, the Resource Based View sees managerial action as driven by strategic thought, whilst the Transaction Costs Economics theory sees managerial action as driven by tactical considerations. Agency theory sees human beings as opportunist, indolent and indifferent to ethics, whilst Neo-Institutional theory sees them as strongly committed to meet expectations and comply with rules, in order to yield good reputation and social legitimation.

In this paper, we take on Smith and Lewis's challenge, and seek to understand the contradictions between 9 popular theories on a "hot" topic (inter-organizational relationships) in terms of potentially beneficial paradoxical tensions.

## **The Accept-or-Fight Paradoxes**

Since we intend to utilize paradoxes to build a general, meta-theoretical framework, we need to root our work in a sound and general theory on what drives the social behavior of *homo sapiens* when interacting in organized groups. We then refer to studies on evolutionary ecology (Lorenz, 1973), adaptive dynamics (for a synthesis, Ricciardi, 2013) and multi-motivational systems (Lichtenberg et al., 2011; Panksepp and Biven, 2012) as a consistent corpus that explains how and why the existence and alternate activation of opposite attitudes is the best solution to allow both homeostasis and evolution in an unpredictable environment. To translate these findings into the organizational discourse, we suggest that at the core of each organizational tension there is *the struggle between build-upon and destroy, between accept and fight attitudes*.

Partially following Lewis's (2000) review, we then propose that the core *accept-or-fight dichotomy* translates into three basic paradoxes:

1. *Paradox of belonging, i.e. the conformism-breach tension*. The organization's behaviors, capabilities and attitudes can be oriented to accept or fight the organization's extant identity, i.e. either to comply with established rules and expectations or to pursue new ones. For example, long-term inter-organizational relationships based on reputation and trust are conformism-oriented; whilst managerial action aimed to develop a new business model or to make political pressures to change the rules of the game is breach-oriented.
2. *Paradox of learning, i.e. the exploitation-exploration tension*. The organization's behaviors, capabilities and attitudes can be oriented to accept or fight the organization's knowledge base. Exploitation-oriented learning is aimed at efficiency and is characterized by self-imitation and training processes, with small, incremental changes in the knowledge base. Exploration-oriented learning is aimed at adaptability and is characterized by serendipity and trial-and-error: possibly dispersive processes in which alternatives are discovered and mapped.
3. *Paradox of interacting, i.e. the cooperation-competition tension*. The organization's behaviors, capabilities and attitudes can be oriented to accept or fight the other actor's needs and desires. Cooperation-oriented interaction is based on fairness, help and

sharing, whilst competition-oriented interaction is based on opportunism, greed and control. For example, an inter-firm partnership for new product co-design usually implies knowledge sharing and mutual help in case of difficulties; but the same relationship can rapidly shift from cooperative to competitive and vice versa, depending on phenomena of reciprocity, invasion of cheaters, change in the institutional environment, etc.

The three categories of tension identified above are defined as paradoxical in that they imply contradictory forces: the organizational elements that deliver one capability (e.g. exploitation) tend to generate negative externalities for those delivering the opposite capability (e.g. exploration) (Boumgarden et al., 2012).

The three pairs of tensions generate eight possible combinations of polarized choices, ranging from the “all-accept combination” (conformism-exploitation-cooperation) characterizing for example trustful, long-term supply chain relationships, to the “all-fight combination” (breach-exploration-competition) characterizing for example the opportunist, short-term relationships of start-ups that rapidly hoard competences and experiences from the environment to build their business role and identity.

Managers drive the organization by choosing between such alternatives. They may display repetitive, long-term preferences: in fact, some firms tend to replicate the same combination (for example, conformism-exploitation-competition). Conversely, managers may differentiate strategies across different contexts or relationships: for example, they may stabilize the conformism-exploitation-competition combination when interacting with certain actors, whilst developing, say, the breach-exploration-cooperation combination when interacting with other more trusted actors. In these cases, managers display the split-and-specialize approach often described in ambidexterity literature (O’Reilly and Tushman, 2008; Raisch and Birkinshaw, 2008). Finally, managers may also oscillate between opposite approaches when interacting with the same actor throughout time, thus displaying the purposeful iterations between alternatives advocated by vacillation theory (Boumgarden et al., 2012) and dynamic equilibrium models (Smith and Lewis, 2011).

### **The Triple Dynamism Model utilized to allow an integrated view of theories on inter-organizational relationships**

In order to show how the Triple Dynamism Model proposed above may allow integration between competing management theories, we will take research on inter-organizational

relationships as an exemplary case. This is a “hot” and complex topic, triggering scholarly work from all over the world. Several opposing and seemingly incompatible theories are utilized to explain inter-organizational relationships. Following Rossignoli and Ricciardi (2014), we took into consideration the following theories:

- Transaction Costs Economics
- Agency Theory
- Resource Dependence Theory
- Collaboration Networks Theory
- Old Institutionalism
- New Institutionalism
- Organizational Ecology
- Resource Based View
- Knowledge Networks Theory

We analyzed the assumptions and findings of each theory in the light of the Triple Paradox model identified above. We found that some of these theories are specialized in explaining one or two among the possible combinations or triads (conformism-breach, exploitation-exploration, and cooperation-competition), whilst other theories are more comprehensive and focus on many possible combinations.

The eight possible combination (or triads) of the Triple Paradox Dynamic Model are synthesized below (see also Figure 1):

1. Cooperation – Exploration – Breach
2. Competition – Exploration – Breach
3. Cooperation – Exploration – Conformism
4. Competition – Exploration – Conformism
5. Cooperation – Exploitation – Breach
6. Competition – Exploitation – Breach
7. Cooperation – Exploitation – Conformism
8. Competition – Exploitation – Conformism

The first two combinations (codes 1 and 2) describe highly innovative inter-organizational relationships. In fact, relationships falling in these categories are aimed both at breach (i.e. the relational activity is used to build a novel identity or role for the organization) and exploration (i.e. the relational activity results in the creation of new, possibly disruptive knowledge).

In the first case (**code 1**) the relationship is cooperative, i.e. the interacting organizations behave fairly, help each other and share resources. This situation is described and explained by three distinct theories and namely: the Organizational Ecology theories (symbiotic market niches in periods of environmental openness); the Resource Based View, especially when successful first-movers' strategic choices are investigated by the Relational Based view and Dynamic Capabilities streams of studies; the Knowledge Networks theory, especially when it investigates organizations leveraging network centrality, network openness and strategic network position as for weak ties and structural holes. To express the nature of this type of inter-organizational relationship or network, the label "Innovation Niche" has been chosen.

In the second case (**code 2**) the relationship is competitive, i.e. the interacting organizations behave opportunistically and greedily with each other, and seek to maintain control on resources instead of sharing them. This is a "red ocean situation" in which organizations use competition to build their identity and to learn from competitors: like for the Innovation niche (code 1), this relational strategy is typical of start-ups and highly dynamic firms. It is described and explained by the Organizational Ecology theory, which describes highly competitive selection phases after periods of environmental openness, that encourage the formation of new organizations and new organizational forms. To express the nature of this type of inter-organizational relationship or network, the label "New Business Model Market" has been chosen.

After the combinations identified by codes 1 and 2, two other types inter-organizational relationships follow, in which an explorative learning strategy is accompanied with a conformist attitude: this means that the organization uses the relationship not to build a new identity or role, but on the contrary to confirm expectations as for its identity or role.

The type of relationship identified by **code 3** occurs when the organization cooperates with one or more partners in order to learn something new, whilst the reciprocal expectations and rules are taken for granted. This triad is described and explained by the Collaboration Networks Theory (which is devoted mainly to collaborative inter-organizational innovation). To express the nature of this type of inter-organizational relationship or network, the label "Innovators Network" has been chosen.

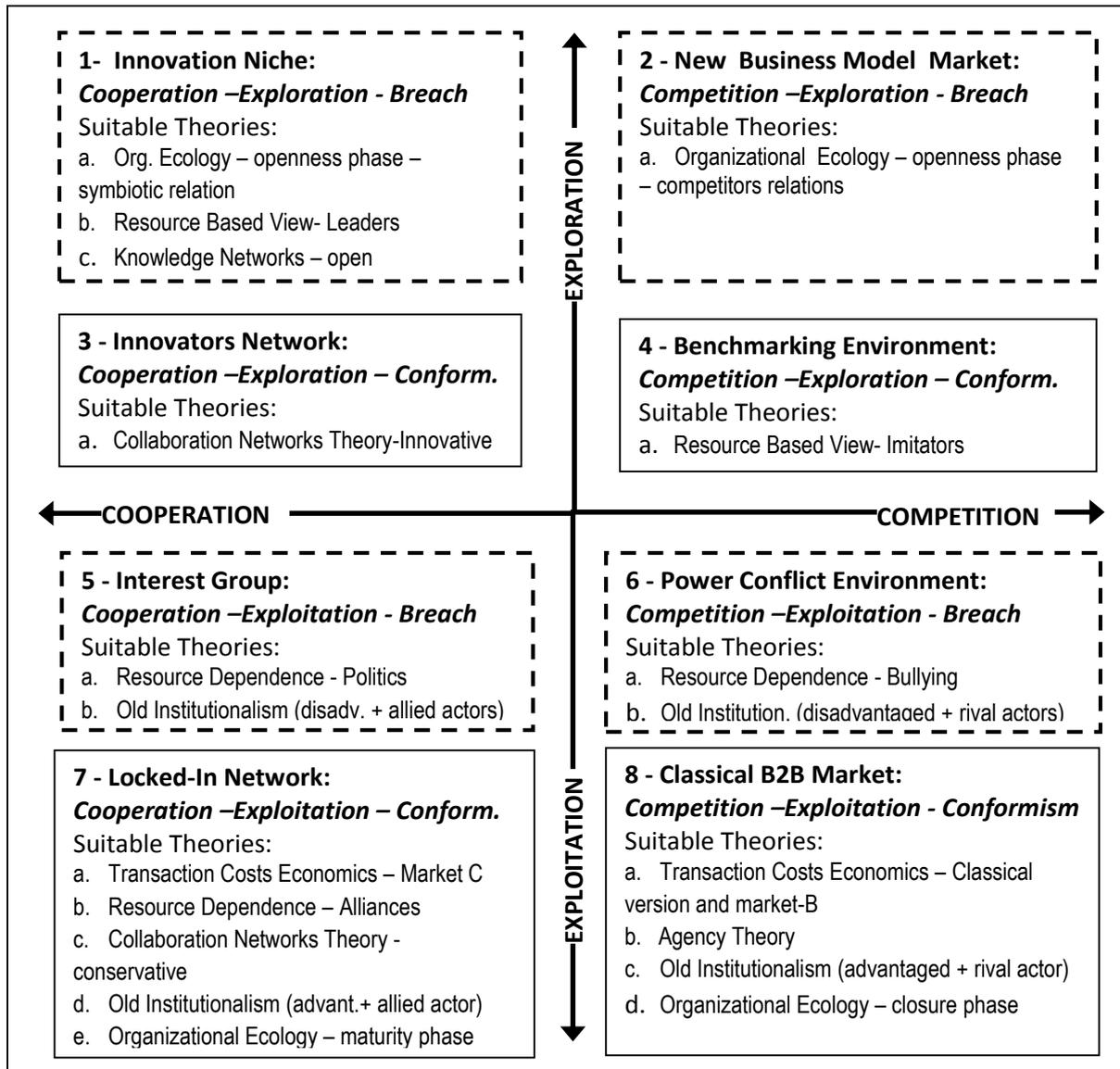


Figure 1. Representation of the eight basic types of inter-organizational relationships resulting from the Triple Paradox Dynamism model. The two Cartesian axes represent the key paradoxical strategies for learning (exploitation – exploration) and interacting (cooperation – competition). The third dimension, i.e. the belonging axe (conformism – breach) is represented by the box graphics: inter-organizational relations enclosed in dotted line boxes are breach-oriented, whilst inter-organizational relations enclosed in solid line boxes are conformism-oriented.

The type of relationship identified by **code 4** occurs when an organization seeks to learn from its competitors, usually by imitating or replicating the market leaders’ choices. Since organizations in this case do not use the competitive relationship to change their identity, but just to explore (and even steal) alternatives, the triad describing this situation is conformism –

exploration – competition. This triad is described and explained by the Resource Based View. In fact, since the RBV focuses on how leading firms should protect their strategic resources from imitation and seizure, it implies that many firms surf the competitive eco-system to learn from competitors: this is the typical strategy of challengers and last movers. To express the nature of this type of inter-organizational relationship or network, the label “Benchmarking Environment” has been chosen.

The following pair of inter-organizational relationships, labeled with codes 5 and 6, have to do with power. They are both based on the breach – exploitation combination: in these inter-organizational settings, the organization uses its relationships to build a new identity or role for itself, or to modify the rules it is expected to comply with.

The type of relationship identified by **code 5** occurs when an organization builds cooperative relationships (for example, it enters lobbies, associations or clubs) in order to re-define its role (e.g. for enhancing its prestige) or to make pressures to change the rules of its environment. This triad is described and explained by two distinct theories: the Resource Dependence theory (when dealing with firms’ political and associative activities); and Old Institutionalism (when studying how the firms that feel disadvantaged in a certain institutional environment form alliances to change the rules of the game). To express the nature of this type of inter-organizational relationship or network, the label “Interest Group” has been chosen.

The type of relationship identified by **code 6** occurs when an organization fights other organizations in order to re-define its own role or to influence the rules of its environment. This triad is described and explained by two distinct theories: the Resource Dependence theory (when dealing with phenomena of inter-organizational bullying); and Old Institutionalism (when studying how organizations that feel disadvantaged in a certain institutional environment fight other organizations to change the rules of the game for their own interest). To express the nature of this type of inter-organizational relationship or network, the label “Power Conflict Environment” has been chosen.

The last pair of inter-organizational relations, labeled with codes 7 and 8, identify the most conservative types of relationships: those based on the conformism – exploitation combination. In these inter-organizational settings, the organization uses its relationships to confirm its extant role and to better exploit the knowledge it already owns.

The type of relationship identified by **code 7** occurs when an organization builds cooperative relationships (for example, integrated supply chains) in order to optimize the exploitation of its own role and knowledge. This triad is described and explained by as many as six distinct theories: the Transaction Costs Economics (when describing the so-called Market-C

environments); the Collaborative Networks Theory (which admits that collaborative networks may result in inward-looking culture and conservatism); the Resource Dependence theory (when dealing with inter-firm alliances and joint-ventures); Old Institutionalism (when studying how the firms that feel advantaged in a certain institutional environment form alliances to maintain the rules of the game unchanged); the Organizational Ecology theories (when studying mature phases of organizational ecosystems, characterized by high levels of inertia); and Knowledge Networks theory (when studying closed, inward-looking networks). To express the nature of this type of inter-organizational relationship or network, the label “Locked-In Network” has been chosen.

The type of relationship identified by **code 8** occurs when an organization faces competitors without using these competitive relationships to change its own role or to access new knowledge. In other words, the organization seeks to exploit its current role and knowledge in its competitive relationships. This triad is described and explained by four distinct theories: the Transaction Costs Economics (classical version); the Agency Theory; Old Institutionalism (when studying how the firms that feel advantaged in a certain institutional environment fight their rivals to maintain the rules of the game unchanged); the Organizational Ecology theories (when studying the closure phases of organizational ecosystems, in which competition progressively closes the niche and inertia spreads); and Knowledge Networks theory (when studying closed, inward-looking networks). To express the nature of this type of inter-organizational relationship or network, the label “Classical B2B Market” has been chosen.

## **Conclusions**

With this work, we sought to demonstrate that the great number of theories explaining inter-organizational relationships from many different points of view is a valuable resource, which should not be wasted by fostering unproductive parochialism.

We propose a meta-theoretical model based on a paradoxical view, which in our intention allows to highlight the complementarities between and across competing theories. Further research steps may lead to investigate the factors that encourage and inhibit the opposing forces and attitudes implied in our triple paradox model, so providing the tools for concrete, operational integration across theories.

This integration may be highly relevant, since our ongoing empirical observations are confirming that the capability of organizations to dynamically integrate *opposing* approaches (such as those envisaged by the numerous theories described here) may be crucial for performance, especially in the medium and long run.

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